

Interview with Choong-Yong Ahn, Chairman, Korea Commission for Corporate Partnership / Distinguished Professor, Graduate School of International Studies, Chung-Ang University

# East Asian Cooperation Can Lead to Good Global Governance

By Japan SPOTLIGHT

## Global Economic Outlook

**JS:** The global economy at the start of 2016 seems to be facing a challenge, perhaps particularly due to the impact of the slowdown of the BRIC economies and the decline in the prices of oil and other primary goods. Do you agree?

**Ahn:** Yes indeed. These issues continue to influence the global economic outlook, and they are indeed very challenging and creating a good deal of uncertainty. The International Monetary Fund (IMF) projected global growth this year of 3.4%, a little up from the 3.1% registered last year. And the growth prospects in the emerging and developing countries, which are still accounting for 70% of global growth, are not really on the rebound. In fact their growth declined for the fifth consecutive year, which is what economists are calling a “new normal” for those nations characterized by low growth and low employment.

So in that sense I agree, and I think the central factor in this is China. China's faster-than-expected slowdown, and rebalancing of economic activity away from investment and manufacturing and towards consumption and services, significantly weighs on global growth. The IMF forecast China's growth at 6.3% this year, which is really down from the 6.9% performance in 2015, and 7.4% in 2014. This has enormous ramifications for other countries. And as you said, energy prices and other commodities are in decline. Oil prices temporarily bounced back to \$29.44 this week, due to the UAE's announcement that it will reduce its oil production, but will most likely further decline towards the end of this year according to global think tanks. This will have a seriously negative impact on international cargo and chemical products, and will also weigh on fuel exporters' own growth prospects and reduce their ability to respond to potential external shocks.



*Choong-Yong Ahn, Chairman, Korea Commission for Corporate Partnership*

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**JS:** How about the impact of US monetary policy?

**Ahn:** This is likely to add on another negative and unpredictable impact, especially on capital flows in emerging and developing economies. These declining capital flows trigger currency depreciation in many emerging markets. I might also mention the very serious recession that is going on in Brazil and Russia, with negative growth rates last year and expected for this year too. And in addition, global trade growth last year was recorded at only 2.6%, far lower than the world economic growth rate of 3.1%. This is very unusual, and has further negatively impacted the global economic outlook. I think the China factor again is the most critical here: China's overall growth rate has declined, so Chinese demand for imports has also declined substantially.

**JS:** Moving from economic to geopolitical risks, how do you assess the impact on economic activity of the many geopolitical crises at the moment, such the refugee crisis in Europe, terrorism in the Middle East or the situation with North Korea?

**Ahn:** It is very clear that the atrocities and terrorism of the Islamic State will impact trans-border economic transactions including trade and investment. Terrorism is one of the most chilling factors in creating a friendly business environment. The United Nations has declared the official start of peace negotiations in charting a way out of the gruesome and tangled civil war in Syria, and I hope that somehow these will work out.

On the North Korean question, I think all the countries in Northeast Asia, as well as the UN, are in great shock at North Korea's single-minded provocations: the fourth nuclear test in January this year and also the long-range rocket launch on Feb. 7 are really causing a serious threat to geopolitical confidence in Northeast Asia. Otherwise

the Northeast Asian economy would continue to strengthen the intra-regional supply chain, but I think this will damage the business environment in the region. I hope that this time the UN Security Council could succeed in coming up with some effective sanction measures to help stop North Korea's relentless provocation against the Non-Proliferation Treaty (NPT) regime.

For another thing, geopolitical analysts are saying that we can see a new version of the Cold War in Northeast Asia, with North Korea siding with China and also partly Russia, against the efforts of South Korea, the United States and Japan to prevent further escalation of North Korean nuclear ambitions. A serious confrontation like this would not be a good sign for the business environment in this part of the world. South Korea closed down the Kaesong industrial complex recently, the last example of inter-Korean economic cooperation. We would like to see China somehow join in creating effective economic sanction measures against North Korea too. This is really an unfortunate and avoidable thing for the idea of an East Asian community or even regional economic integration. Another serious collision will also disrupt global trade and financial and tourism flows on a sub-regional basis.

### **Role of Regional Cooperation in Global Governance**

**JS: You stress the importance of regional cooperation, in particular between China, South Korea and Japan, in dealing with these geopolitical or economic situations. On the assumption that the US becomes more hesitant to make active interventions in global governance, do you think regional cooperation frameworks could be expected to take on a more important role in this area?**

**Ahn:** I think that is definitely true, as the linkage of the US with East Asia in terms of trade and cross-border investment has diminished over the years, and with the rapid rise of China in terms of global trade and economic growth. In that sense, global governance for East Asia's robust and sustainable growth could be addressed. But still, East Asian economic dynamism has largely been based on open regionalism — Japan and South Korea, and the four tiger economies, were able to grow by utilizing exports to the almost unlimited market of the US before China's economic rise, and the US dollar is still a key currency. Therefore I think that East Asia will need to construct global governance in collaboration with the US, not in separation from it.

Nevertheless, I think East Asia still needs to work on its own sort of program on a sub-regional basis, which we have neglected for many years, really until the eruption of the Asian financial crisis. Before that, Asia had not actually developed a sense of togetherness, or developed collective mechanisms to effectively defend ourselves against external shocks. In that sense, if we compare it with the European Union or the North American Free Trade Agreement (NAFTA), East Asia has been greatly lagging behind. We sort of each played our own game independently, creating extra-regional orientation especially *vis-à-vis*



Photo: Author

the US. If the East Asian economy develops self-supporting regional governance, consistent with the global governance roles of the IMF, World Bank, or the World Trade Organization regime, I think that could be better for East Asia: on the one hand helping each other, but on the other deeply connected with the US and the EU.

**JS: As you know, Trans-Pacific Partnership (TPP) negotiations have been completed, and hopefully towards the end of this year the Regional Comprehensive Economic Partnership (RCEP) will be concluded. What do you think about these developments?**

**Ahn:** I believe the conclusion of the TPP over the last year is a great breakthrough for the global free trade and investment regime. The TPP has truly admirable multiple goals to promote economic growth, support the creation and retention of jobs, enhance innovation, increase productivity and competitiveness, raise living standards, reduce poverty, promote transparency and good governance, even to enhance labor and environmental protection, and so on. However, apart from Japan, Malaysia, Brunei and Vietnam, the major economies in East Asia have not been involved in the TPP, so I think that the RCEP, with the member states of ASEAN plus China, Japan, South Korea, Australia, New Zealand and India, should also be progressed. In economic size it is almost equivalent to, perhaps greater than, the TPP, encompassing one half of the global population. There is a challenge in that the quality of the ongoing RCEP negotiation criteria is far lower than that of the TPP, but we may see a great deal of commonality between them. The RCEP could then serve as a pathway to an Asia-Pacific free trade area, and contribute to building momentum for further global trade reform and creation of a level playing field.

**JS: Do you think such an Asia-Pacific free trade area would also be a great contribution to global governance in trade policy?**

**Ahn:** Yes. But this has been discussed in many APEC rounds, and as you know well, with APEC the process is not actually binding. In that sense APEC has a great limitation. Nevertheless, China, the US, and all the key APEC members are committed to the TPP on the one hand and to the RCEP on the other, and in the case of Japan, to involvement in both. Therefore, if the US and China, together with Japan and the key ASEAN members and South Korea, are truly committed to the basic spirit underlined in these, we should be able to move on to a more concrete action-oriented program that will lead to a free trade area within APEC. Both deals contain tremendous potential to open the economies and allow free movement of goods and services, and if they materialize and become effective they will certainly contribute a great deal all around to globalism.

To achieve this objective, the 16 member economies participating in the RCEP need to carry on structural reforms to the target levels, including in labor standards and environmental and intellectual property rights. If the two mega-deals approach each other in quality, there is no reason why we cannot combine them — although it may take some time because the economic development states of RCEP members are so different. To a lesser degree that is also true of TPP members, among which you have such economies as the US, Canada, Australia and Japan, but also those like Vietnam and Mexico which still need to carry on very comprehensive structural reforms.

**JS: Regarding this need for structural economic reform, do you think Asia might need another sort of organization, like the OECD, to examine the trade and domestic structural economic reform issues together?**

**Ahn:** Some economies in East Asia have made a great deal of progress, but others could benefit from provision of knowledge on how to carry out structural reform and cultivate capacity-building. So I think we really need to enhance the existing framework. For example, the Chiang Mai Initiative (CMI): if we expand it further, its scheme also allows members to monitor each other's macroeconomic development, and if something goes wrong it can provide an early warning system, so that we can help any economy in distress with effective measures. In that regard, coordinated,

collaborative macroeconomic policy among ourselves is very important. So I think we need to augment the existing CMI structure, and perhaps also the Asian Bond Market Initiative, to encourage development of small and medium enterprises in the region. So there are existing mechanisms like these, and then perhaps also the mutual consultation and economic dialogue system of ASEAN plus China, Japan and South Korea. This could be further effective to address the kinds of issues we are discussing.

## The “Asian Paradox”

**JS: Since Asia is at the center of world growth, perhaps these international or regional economic cooperation schemes would play a principal role in global governance as well. However, the “Asian Paradox” does seem to be an impediment to such mechanisms. Do you think it will be resolved with the growing linkages between Asian economies?**

**Ahn:** Here I think we need to proceed with both the bottom-up and top-down approaches. For the bottom-up approach, we should recognize ongoing regional value chains and cross-border foreign direct investment. Even in the absence of a formal free trade area, East Asia is a global manufacturing powerhouse. Japanese investors working in South Korea, and in Shenzhen in China, for example; this production and cross-border investment needs to be encouraged. As for top-down, and regarding the Asian Paradox, we can see here a sort of hegemonic leadership competition among the US, China and Japan for intra-regional economic dominance. The US proposed the idea of the pivot to Asia — I agree with the policy in terms of enhancing the linkage between the US and Asian economies. On the other hand, is this on a collision course with Chinese policy? Or are they mutually reinforcing? How will it proceed? The Asian Paradox takes place very much along those lines. And how too do we resolve historical legacy, maritime sovereignty and other territorial issues between Japan, China and South Korea? I think wartime legacies and mistrust still linger in the mindsets of people in the key economies.

So resolving the Asian Paradox issues will truly require visionary political leadership. In that sense too we need to work on a bottom-up approach. If we recognize the great threat from climate change, and safety issues concerning nuclear power plants as experienced in the Fukushima disaster, and also environmental degradation, air quality, and even cyber-security issues — all these are a pure matter of our physical survival, right? So if the general public agree on the urgency of these issues, perhaps collaboration at the bottom level can gradually build up mutual trust and let us accumulate collaborative experience to resolve those history issues.

I would like to recall the great wisdom displayed by political leaders like Jean Monnet of France and Robert Schuman of Germany in the 1950s. Both went through the devastating consequences of World War II in both countries, and decided they needed to ensure together that such a huge war must never recur. So then they agreed to set up the Coal and Steel Community between the two countries, which was



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The 23rd APEC Economic Leaders' Meeting in Manila, the Philippines, Nov. 19, 2015



then joined by the Netherlands, Luxembourg and so on. If we have those kinds of visionary political leaders, who can address common issues and build mutual trust, then I think down the road we should be able to resolve these Asian Paradox issues.

**JS: Do you think closer political cooperation could also be developed in Asia over human security issues, such as disaster mitigation or pandemics?**

**Ahn:** I think we have to systematically address how to prevent things like cyber-terrorism, pandemics or the serious pollution issues, within APEC and in other regional fora. We need to share knowledge on how to design preventive mechanisms, and ought to encourage multilateral ministerial meetings specifically focusing on these issues.

## Income Inequality

**JS: Income inequality seems to be a growing problem all over the world: both inequality between rich and poor countries, and also within countries, such as the US, where it has become a major topic in the presidential elections. Do you think this will be included in this regional cooperation regime?**

**Ahn:** I definitely think so. In fact, the work I am doing as chairman of the Korea Commission for Corporate Partnership is addressing that very issue: how we can design win-win growth between Korean *chaebol* and small and medium-sized enterprises — especially the very traditional retailers and family businesses. Nobel economics laureate in 2015 Prof. Angus Deaton mentioned that a new economic phenomenon is emerging, characterized by slow growth and very low employment, and that income inequality is really getting worse and crossing a socially intolerable level. If that is not checked, society might run into great socio-economic instability; therefore the fruits of economic growth must somehow be widely shared down to people in the lowest income bracket. So in that sense, I think we need to address inclusive growth explicitly. I was really startled by the research report done by the IMF, where they found out that if people in the top 20% income bracket enjoy 1% income growth, then other things being equal, that will likely contribute to negative growth of GDP; whereas, if the bottom 20%'s income level increased by 1%, it would be likely to contribute positively. Furthermore an OECD report has indicated that the conventional wisdom involving trickle-down theory does not work in increasingly inequitable economies. In many developing countries income inequality is getting worse and worse, and therefore we have to address how to design a sustainable growth framework to ensure growth is shared among all economic agents.

**JS: Perhaps aging and social welfare issues should also be discussed in this context of income inequality?**

**Ahn:** Yes, and many East Asian economies, especially Japan and

South Korea, now face a rapidly aging society and declining fertility rate. We can see elders living alone without anybody who can take care of them, even if they are seriously ill. Society needs to come up with a very comprehensive social safety net, which requires a great deal of public expenditure from the national budget. Here again there is the question of how to commit to welfare expenditure while maintaining growth momentum; perhaps we might need to pull on the rich experience of Scandinavian countries to build a welfare society in a robust market economy.

**JS: Europeans sometimes say that Asians are so different from each other, making it difficult to have a regional cooperation scheme like the EU. But perhaps they have something in common in their basis in Confucian philosophy, at least among China, Japan and South Korea? Perhaps it would be of value for the three countries to look at history not only in terms of the tragedies of the recent past, but also of these long-shared values and common culture?**

**Ahn:** I certainly agree. Many have criticized Confucianism as a hierarchical system, especially in its deviation from Western individualism, but I do not agree with that. Confucius's philosophy has always emphasized a great harmony among peoples, and also respect for elders. That will help a great deal, for example, to create that kind of welfare society and self-help programs in South Korea, and I think that is true for Japan and for China too. Even where governments fail to provide a welfare program, our children can still feel that moral obligation to look after the aged and elderly parents, right? That could be one of the best social safety nets. Its spirit is rooted in East Asian culture, and collaboration is also a critical component we can take from Confucius's philosophy. I know that Japan has set a great example in developing a system emphasizing an equal footing between the big companies and first or second sub-tier companies, and on the basis of mutual trust was able to establish things like Toyota's Just-In-Time delivery system.

Japan, China and South Korea also have a shared rice cultivation culture dating back several thousand years. Rice cultivation requires community action: things must be done in a given short period of time, together, so that efficiency can be improved greatly through community effort. It is a spirit that has been cherished for many, many years. And I often refer to the famous Confucius teaching: if you have great friends who visit you from a long distance, it brings tremendous pleasure and human happiness, right? The spirit of harmony and peace is right there. So why should we not cultivate this as our spiritual foundation?

**JS**

*Written with the cooperation of Chaobang Ai, a Tokyo-based editor and blogger.*